



Local Government Investment Pool

Ron G. Crane  
Idaho State Treasurer

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## **RON G. CRANE**

# **IDAHO STATE TREASURER INVESTMENT POLICY**

### **SCOPE**

The investment policy applies to the investment activities of the Idaho State Treasurer's Office Pooled Idle Fund Investments, State Agency Investments, Joint Exercise of Powers Local Government Investment Pool Investments, Investments of the Tax Anticipation Note monies and The State Treasurer's Small Business Loan Program.

### **OBJECTIVES**

The funds available for investment are state agencies and general fund monies. These funds will be invested in accordance with Section 67-1210 and Section 67-1210A, Idaho Code.

- The primary objective of the State Treasurer is to ensure the preservation of capital in the portfolio. This objective will be carried out first and foremost with no exceptions.
- The second objective is to ensure liquidity of investments based upon the constraints imposed by cash flow needs.
- The final objective of the investment policy is to provide maximum yield while maintaining safety and liquidity.

The steps above are listed in order of importance and will always be taken into account when the investment manager makes the decision to invest in a specific instrument.

The investment policy requires active portfolio management which means constant monitoring and pricing of the portfolio, the markets, the values of instruments and adjustments within the portfolio according to the limits of the policy.

### **STATUTORY AUTHORITY**

According to Section 67-1210, Idaho Code, the state treasurer is a custodian of the public confidence and is ultimately responsible for conducting investment transactions.

### **STANDARDS OF CARE**

The standard to be used by investment personnel will be the 'prudent person' rule, Section 67-1210, Idaho Code. This concept will be applied in the context of managing the overall portfolio where the 'prudent person' is reasonable, well informed and not a professional investor "prudent expert." The "prudent person" concept implies that the primary concern is to preserve capital and avoid speculative transactions.



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## **ETHICS**

Officers and employees involved in the investment process shall refrain from engaging in personal business activities affected by their duties and responsibilities as investors of public funds, that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the entity.

## **INTERNAL CONTROL**

The State Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the State Treasurer shall establish a process for an annual independent review by an auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion,
- Segregation of duties,
- Clear delegation of authority to subordinate staff members,
- Procedures to consummate a purchase or sale of a security,
- Written confirmation of investment and wire transfer transactions.

### **A. Legal Investments**

The following list constitutes current legal investments under Section 67-1210, and Section 67-1210A, Idaho Code. Under section 67-2739 of the Idaho Code unsecured investments are permitted. The State Treasurer has determined the maximum unsecured deposits invested in the idle pooled fund with any one Idaho bank shall be limited to 10% of the total portfolio, not to exceed 50% of that Idaho bank's capital and surplus. The state will diversify its investments in order to avoid risks in specific instruments, individual financial institutions or maturities.



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## B. Diversification

The current diversification is as follows:

INVESTMENT INSTRUMENT	MAXIMUM ALLOWED
T-bills	100%
T-Notes	100%
Corporate Bonds	20%
U.S. Government Agency Securities *	100%
Federal Farm Credit Bank (FFCB)	50%
Federal Home Loan Bank (FHLB)	50%
Federal Home Loan Mortgage Corporation (FHLMC)	50%
Federal National Mortgage Association (FNMA)	50%
Student Loan Marketing Association (SLMA)	50%
Tennessee Valley Authority	50%
Government Guaranteed Small Business Association Loan	15%
Idaho State Obligations (general obligations of this state)	100%
Other Obligations (revenue bonds of any county, city, or any taxing district of the State of Idaho)	100%
Repurchase Agreements	100%
Tax Anticipation Notes (registered warrants of the State and TAN of other tax-supported entities)	100%
Certificates of Deposit in Idaho State Depositories	20% **
Banker's Acceptances	15%
Commercial Paper	25% **
Securities Lending	100%
Covered Call Writing	10%
* No I.O.'s or P.O.'s	
** No institution shall exceed 50% of its capital and surplus. Idle investments cannot legally exceed National Credit Union Insurance limits.	



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**C. Guidelines for Deposits with Financial Institutions**

The following grid is designed to provide guidelines for allocating state funds to Idaho financial institutions. The Sheshunoff Bank Rating, in the first column, is a completely independent, unbiased rating of an institution's financial safety. The second column is the maximum percentage of holdings allowed based on the capital surplus of each individual bank. The third column shows the maximum dollar amounts allowable for each individual institution. Each financial institution will be allocated the lesser of either the maximum of the holdings allowed or the percentage of capital and surplus.

<i>Sheshunoff Bank Rating</i>	<i>% of Holdings to Capital Surplus</i>	<i>Holdings Allowed</i>
<i>75-99</i>	<i>25%</i>	<i>\$5,000,000</i>
<i>50-74</i>	<i>20%</i>	<i>\$2,500,000</i>
<i>25-49</i>	<i>15%</i>	<i>\$1,000,000</i>
<i>0-24</i>	<i>Analysis Required</i>	<i>Analysis Required</i>

Exceptions can be made to the guideline grid after approval by the Chief Investment Officer and after report has been made to the State Treasurer. Approval for any deposits at "0-24" rated banks must be contingent upon in-depth bank analysis and approval of the Chief Investment Officer and State Treasurer. All "0-24" rated bank holdings will have a maximum maturity date of 90 days.

**D. Maturity Schedule**

Investment maturities for operating funds will be scheduled to coincide with cash flow needs, taking into account routine expenditures as well as anticipated revenue. Money not needed for cash flow will not exceed a maximum maturity of five years on all funds except the Local Government Investment Pool (LGIP). Investments in the LGIP shall not exceed four years in maturity. The only exception is the purchase of SBA Loans, which have a maximum maturity of 25 years.

**E. Performance Evaluation**

The investment portfolio will be managed in accordance with the parameters specified within this policy. Each investment portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The Six-Month Treasury Constant Maturity Rate shall be the benchmark against which the Idle Investment portfolio performance shall be compared on a regular basis. The 90-day Treasury Constant Maturity Rate shall be the benchmark against which the Local Government Investment Pool portfolio performance shall be compared on a regular basis.

**F. Reporting**

The State Treasurer shall prepare an investment report annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow the State to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the State Treasurer, the legislative body, and any pool participants.



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The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with GASB requirements).
- Average weighted yield to maturity of portfolio on State's investments as compared to applicable benchmarks.
- Listing of investments by maturity date.
- Percentage of total portfolio that each type of investment represents.

## **SPECIAL CONSIDERATIONS ON CERTAIN INVESTMENTS**

### **A. Corporate Bonds/Notes**

1. Maximum maturity of five years.
2. Rating must be single "A" or its equivalent or better by two or more public rating agencies.
3. Maximum percentage of the total portfolio may not exceed twenty percent.
4. Each individual corporate security may not exceed five percent of the total bond/note portfolio.
5. Diversification: To reduce overall portfolio risks while attaining average market rates of return.
  - Limiting investments to avoid over-concentration in securities from a specific issuer or business sector.
  - Limiting investments in securities that have higher credit risks.
  - Investing in securities of varying maturities.
  - Must sell if credit rating drops to BBB.

### **B. Commercial Paper**

Idaho code 67-1210A specifies that only investment grade commercial paper can be purchased. Investment grade commercial paper may not exceed more than 25% of the total portfolio. Individual commercial paper purchases may not exceed 20% of the total allowable investment in commercial paper (25% of the total portfolio). All commercial paper purchased must be registered commercial paper and be rated "A-1" or its equivalent or better by two or more public rating agencies. There will be no exceptions to these rules.

### **C. Repurchase Agreements**

The state treasurer's current policy is to conduct repurchase agreement transactions with primary dealers and local financial institutions. Before a bid on a repurchase agreement is considered, the "Master Repurchase Agreement" must be signed by the brokerage firm, bank, credit union, or savings and loan issuing the instrument as well as the State Treasurer. The "seller's margin account" will equal 102% of the repurchase price for a transaction 1 to 30 days to maturity; 103% of the repurchase price for a transaction 31 to 60 days to maturity; and 105% of the repurchase price for a transaction 61 days or greater to maturity.



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If the "seller's margin amount" decreases 3% or more from the repurchase price additional securities may be obtained to meet the bid.

Substitutions of securities used as collateral for repurchase agreements will be allowed ONLY when agreed upon by the state Treasurer's office, provided the seller pays the buyer's cost associated with such a transaction at the time of the trade. The broker, dealer or bank MUST inform the state at least twenty-four (24) hours prior to the substitution. NO exceptions will be permitted.

No more than ten percent of the total portfolio with any one institution with a rating of "A" or better by Standard & Poor's or Moody's Investor Services credit rating systems. No repurchase agreements will be purchased from an institution with a rating below "A".

#### **D. Securities Lending**

Requirement: No lending program will be initiated without both parties agreeing to the terms outlined in the State Treasurer's lending contract.

#### **E. Option Contracts**

Provision: The sale and repurchase of call options is permitted only on securities owned by the State Treasurer.

### **COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

#### **A. General**

A competitive bid process will be required prior to the investment of any idle funds. Management shall determine the most prudent investment considering risk, liquidity, and rate of return. For example, the bid giving the highest rate of return after conducting a yield analysis will be accepted if the risk and liquidity are judged to be equal. This shall apply to the investment instrument as well as financial institution.

If the bid deviates substantially higher or lower from the bids of that day, implying that risk and liquidity may not be equal to other instruments, a credit check will be made on that particular financial institution or instrument.

#### **B. Insurance**

Under section 67-2739 of the Idaho Code unsecured investments are permitted. The State Treasurer has determined the maximum unsecured deposits invested in the idle pooled fund with any one Idaho bank shall be limited to 10% of the total portfolio, not to exceed 50% of that Idaho bank's capital and surplus.

### **SELECTION OF BANK AND DEALERS**

The credibility of brokers, dealers and banks will be checked and analyzed. Criteria for selection will include registration as a dealer or broker with the Department of Finance and designation of a bank as a public depository institution as regulated by Idaho Code, Section 67-2739. On the date of or before the holding of state deposits, the Banking Corporation or the National Banking Association must file an affidavit (a legal document of trust) with the State Treasurer. This affidavit must be from one of the officers of the banking



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institution. This affidavit is effective until January 31<sup>st</sup> of the following year in which a new one must be filed to continue the holding of state deposits. The investment officer will invest with those financial institutions that meet the above criteria.

### **SEPARATE INVESTMENTS FOR STATE AGENCIES**

Separate investments may be purchased for State Agencies. The minimum investment purchase is \$1,000,000. The minimum maturity of these separate investments is three months. All investment purchases must adhere to the same investment policies as the State's Idle pooled fund. Agencies, which have separate investment balances as of the date of this revised Investment Policy, will be exempt from the minimum investment rule.

### **SAFEKEEPING**

All investments are held under current contract in safekeeping by Mellon Bank or in the State Treasurer's vault.

### **EXCEPTIONS**

Any exceptions to the Investment Policy will be submitted by the Investment Manager in writing to the State Treasurer and approved by the State Treasurer.

### **EVALUATION**

The state treasurer reserves the right to amend any of the previous internal guidelines.

*Revised 02-02-06*

*By: Liza Carberry "Chief Investment Officer" and Shawn Nydegger "Investment Officer"*